The Mid-Currituck Bridge Project

Public-Private Partnership Commission

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Mid-Currituck Project: NC's First Transportation P3

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- **Length: 7 miles**
- **Estimated cost: $550 - $625 million**
- **DOT began environmental studies: 1995**
- **NCTA took over studies: 2005**
- **Construction to begin: 2012**
- **Open to traffic: 2015**

Mid-Currituck Project: NC's First Transportation P3

- **Decision to use P3 driven by desire for financial certainty and risk mitigation:**
  - **Financing risk -- equity contribution (cash), debt**
  - **Revenue risk -- high toll rates**
  - **Seasonality risks -- 80% of revenue in summer season**
  - **High maintenance risks -- harsh coastal conditions**
  - **Construction costs overruns – delays, capitalized interest**

The PDA Process

- NCTA followed NC's procurement law and competitively selected Currituck Development Group (CDG) as partner in 2008
- CDG assisted in:
  - Preliminary engineering
  - Financial feasibility analysis
  - Traffic and revenue projections
  - Technology inputs
  - Environmental reviews
- NCTA paid for CDG services at discounted prices and owns all products

The PDA Process

- **Predevelopment Agreement (PDA) structure allowed long mutual learning curve with potential project developer**
- **Partnership provided opportunity to develop innovative ideas and fine-tune project**
- **Contractor's technical expertise saves months and millions, given nature of bridge**

The PDA Process

- **Project feasibility is determined when environmental approvals and financial studies are complete**
- **If not financially feasible to both parties, either party may walk**
- **NCTA is free to pursue and re-bid as municipal-financed project or not build at all**

Where Are We in the Process?

- Traffic and revenue study under final review
- Environmental approvals expected in 2nd quarter of 2011
- Financial feasibility determination expected within 45 days
- Concession negotiations expected to begin in Spring 2011
- NCTA will compare P3 to standard procurement with municipal financing and decide how to proceed

Guiding Principles Behind P3

- **Real value must come from private partner**
  - **Hard-dollar equity contribution**
  - **Risk mitigation (financing, revenue, schedule, maintenance, operations, etc.)**
- **NC must retain meaningful role in policy and oversight**
  - **Toll policies and rates**
  - **Construction and performance standards**
  - **System integration with other projects**
  - **Transparency, operations oversight**

Defining the Public Interest

Public interest is multifaceted; project must be viewed as:

- **Meeting local community's evacuation needs while maintaining maximum safety standards**
- **Offering excellent customer value and service at a fair rate**
- **Constructing most cost-effective project while achieving maximum risk avoidance**
- **Maintaining transparent procurement and operation records throughout concession period**

How is Public Interest Protected?

- Process must be transparent and open
- All project elements are priced “open book” and subject to review by interested parties
- Terms and conditions must be fair and reasonable
- Final decision to proceed rests with State of NC even if feasible as P3
- Final concession agreement subject to approval by Attorney General

The Concession Agreement

- Defines mutual obligations and rights
- Highly structured, heavily negotiated
- Incorporates financing, construction, operations, maintenance terms and conditions
- Sets out performance standards
  - Remedies and penalties for failure to perform including termination
  - Equity forfeited if terminated
- NCTA retains step-in rights under certain conditions

P3 Myths

- **"If project doesn't work as municipal, private equity can make it work as P3."**
  - **Very unlikely**
- **"Private sector can adjust tolls to cover financing cost."**
  - **Not true**
- **"Private sector can borrow incrementally, realizing huge savings on capitalized interest."**
  - **True, but unlikely to turn a bad deal into a good one**

Lessons Learned

- **Optimal approach to project delivery depends on public sector's risk tolerance.**
- **Early and sustained local teaming and public involvement is essential to success.**
- **Long-term concessions can carry higher cost of capital but bring private-sector innovation.**
- **Private sector values ability to define project.**
- **Private sector resists taking on environmental and permitting risks.**
- **Capital markets still have significant appetite for well-structured start-up project debt.**

Lessons Learned

- **P3's can be excellent risk mitigation tools.**
- **Potential upside opportunity may have strong appeal to private sector while of little value to public sector.**
- **P3's must be evaluated on a case-by-case basis; every deal is different.**
- **"Patient capital" can be very attractive to long-term investors (pension funds, institutional and foreign investors).**
- **Public interest must always be protected.**

Questions?